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FM AMEMBASSY ANTANANARIVO
TO RUEHC/SECSTATE WASHDC 2420
INFO RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS ANTANANARIVO 000345

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SIPDIS

E.O. 12958: N/A
TAGS: ETRD AGOA EINV ECON MA
SUBJECT: AGOA SHIPMENTS IN FIRST QUARTER 2009 - MADAGASCAR

REF: 08 ANTANANARIVO 608

¶1. SUMMARY: Madagascar's AGOA apparel exports in the first quarter of 2009 increased by 6 percent compared to the same period in 2008. However, this trend will likely be reversed in April and May due to the current political and economic crisis, and the consequent departure of the GAP group, which accounted for almost USD 3.5 million in 2008. END SUMMARY.

GOOD PERFORMANCE, BUT SIGNS OF TROUBLE

¶2. During the first quarter of 2009, Madagascar's AGOA apparel exports grew to USD 52.9 million versus USD 49.8 million during the same period in 2008, and USD 47.6 million in 2007. This positive trend is primarily due to the performance of four companies: Kam Hing, M. Klen, Prime View, and Grove, which exported a total of USD 35 million during this period. Around 30 exporters shipped under AGOA in 2008, but this number has decreased to a current average of 26 to 28 exporters per month. According to the Malagasy customs service, no AGOA firms have closed yet, although several firms exporting to Europe have been forced to do so due to ongoing political unrest and reduced demand in their target markets.

¶3. In mid April, a representative from the GAP Group informed Post that they would no longer purchase apparel from Madagascar because of the frequent delays caused by political turmoil. In 2008, GAP Group purchases from five firms amounted to USD 3,449,021, somewhat lower than their 2006-2007 imports from 10 firms valued at over USD 15 million. Since the end of the multi-fiber agreement in 2005, which restricted their ability to purchase materials from China, GAP Group had already begun restructuring their operations in Madagascar, and moving some production elsewhere, including nearby Mauritius. At present, two companies (Kam Hing and Cosmos) represent more than 90 percent of GAP's shipments, and will thus be most affected by their withdrawal. As GAP is a well-known brand name, its departure will be a negative signal for Malagasy firms in the U.S. apparel market.

¶4. The Malagasy customs service reports that since February 2009, several companies have re-exported part of their fabrics, accessories and equipment to their head offices based in China or Hong Kong. MAZAVA Company, an American firm specializing in sportswear, announced that it will continue expanding in Mauritius instead of Madagascar due to the political situation.

THREAT TO AGOA INELIGIBILITY

¶5. COMMENT: Since the recent USTR warning on Madagascar's possible AGOA ineligibility, many companies have expressed their concerns to the Embassy and to the transition government. The association of EPZ firms (GEFP) has been actively lobbying the transition government concerning the consequences of continued instability, and hope to strengthen their case following their recent trip to Washington, DC. GEFP operators indicate that if Madagascar loses

AGOA eligibility, orders will likely stop coming in around August, and production will wind down in the months to December. While it is clear that some elements of the transition government are aware of these consequences, there has been no indication to date that the government will engage on this issue.

MARQUARDT